

Northville District Library

**Financial Report
with Supplemental Information
November 30, 2008**

Northville District Library

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Independent Auditor's Report

To the Members of the Board
Northville District Library
Northville, Michigan

We have audited the accompanying financial statements of each major fund and the government-wide activities of the Northville District Library as of and for the year ended November 30, 2008, as listed in the table of contents. These financial statements are the responsibility of Northville District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the government-wide activities of Northville District Library as of November 30, 2008 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

January 22, 2008

Northville District Library

Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the Northville District Library (the "Library") provides an overview of the Library's financial activities for the fiscal year ended November 30, 2008.

Financial Highlights

The following represents the most significant financial highlights for the year ended November 30, 2008:

- The financial report for the year ended November 30, 2008 reflects entity-wide financial reporting in addition to reporting financial information at the fund level. A reconciliation of the net change in fund balance to the change in net assets is provided on page 19.
- Overall, revenues and expenditures were consistent with the prior year. Noteworthy items include the following:
 1. Tax revenue was very close to the budgeted amount, but tax refunds, at \$31,944, were over three times the budgeted amount. Interest rates were extremely unfavorable for investments and amounted to almost 25 percent under budget. Total income before donations was slightly under budget but donations, including Friends of the Library donations, took income up to the budgeted amount. This seems to be the beginning of the reduced income due to the falling prices of homes, foreclosures, and general economic downturn.
 2. During the year, a contribution of \$100,000 was made to the MERS Retiree Health Care Fund to continue funding retiree health care. Another \$50,000 was moved to the Building Preservation Fund in the Reserve Fund and RFID funds were increased by \$30,000.
 3. Several categories of expenses were under the budgeted amount, resulting in a balance of \$175,194 of income over expenses which was transferred to the reserve account for building preservation and future unfunded expenses.
 4. The Library's budget for 2009 reflects a reduction in income of about 2 percent, while Northville Township projects drops of 10 percent for 2010, 10 percent for 2011, and 5 percent for 2012 and 2013 and the City also projects decreases. An updated five-year plan reflects the changes and the eventual use of funds from the Reserve Fund to continue to provide the same level of service as 2008-2009.

Northville District Library

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers and users have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' and users' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's funds.

The Library as a Whole

The following table shows, in a condensed format, the current year's net assets compared to the prior year:

	2008	2007	Changes from Prior Year	
			Dollars	Percent
Assets				
Current assets	\$ 1,381,211	\$ 1,078,307	\$ 302,904	28.1
Capital assets	<u>4,711,576</u>	<u>4,809,633</u>	<u>(98,057)</u>	(2.0)
Total assets	6,092,787	5,887,940	204,847	3.5
Liabilities				
Current liabilities	511,912	519,151	(7,239)	(1.4)
Noncurrent liabilities	<u>2,375,000</u>	<u>2,700,000</u>	<u>(325,000)</u>	(12.0)
Total liabilities	<u>2,886,912</u>	<u>3,219,151</u>	<u>(332,239)</u>	(10.3)
Net Assets				
Invested in capital assets - Net of related debt	2,011,576	1,809,633	201,943	11.2
Restricted - Debt service	113,300	51,205	62,095	121.3
Unrestricted	<u>1,080,999</u>	<u>807,951</u>	<u>273,048</u>	33.8
Total net assets	<u>\$ 3,205,875</u>	<u>\$ 2,668,789</u>	<u>\$ 537,086</u>	20.1

Northville District Library

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year in comparison with the prior year:

	2008	2007	Changes from Prior Year	
			Dollars	Percent
Revenue				
Property taxes	\$ 2,782,178	\$ 2,547,678	\$ 234,500	9.2
State aid	17,950	21,733	(3,783)	(17.4)
Other income	163,450	200,473	(37,023)	(18.5)
Total revenue	2,963,578	2,769,884	193,694	7.0
Expenditures				
Wages and benefits	1,399,891	1,290,119	109,772	8.5
Facilities	149,821	182,804	(32,983)	(18.0)
MERS healthcare contribution	100,000	100,000	-	-
Depreciation	352,900	306,006	46,894	15.3
Debt service	105,325	127,025	(21,700)	(17.1)
Other	318,555	233,208	85,347	36.6
Total expenditures	2,426,492	2,239,162	187,330	8.4
Excess of Revenue Over Expenditures	\$ 537,086	\$ 530,722	\$ 6,364	1.2

The increase in revenue primarily reflects the overall increase in the taxable value of the Northville area. Other income decreased from the prior year due to reduced interest rates on investments and penal fines received.

The increase in expenditures is due to increased personnel costs, depreciation expense, and other costs.

The Library's Funds

The Library maintains three funds: the General Fund, the Reserve Fund, and the Debt Service Fund. All three funds are considered major funds. The fund financial statements provide detailed information about the funds, not the Library as a whole. The Library board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as debt service payments.

General Fund Budgetary Highlights

The General Fund accounts for all programming, maintenance, capital investments, and administrative functions of the Library. The budget is monitored closely and amended quarterly, if needed.

The General Fund pays for all of the Library's services. The most significant are program activities.

Northville District Library

Management's Discussion and Analysis (Continued)

The Debt Service Fund did not have a budget adopted by the Library board for the year ended November 30, 2008. This type of fund is not required by State of Michigan law to have a budget adopted.

Capital Asset and Debt Administration

At the end of fiscal year 2008, the Library had approximately \$4,700,000 (net of depreciation) invested in a broad range of capital assets, including books, buildings, technology equipment, and furniture.

The Library has a Debt Service Fund. This fund allows for the collection of a dedicated millage approved by taxpayers for debt service of the 1998 Refunding Bonds and the related debt service payments.

Economic Factors and Next Year's Budgets and Rates

Property value assessments in southeastern Michigan have generally declined during the current year, including the Northville area. The result of this is that taxable values of property within the Northville area have remained relatively flat and will likely be declining in the short-term. With the close of fiscal year 2008, funds of \$545,233 have been designated for capital and technology projects. The evaluation of capital improvements and technology investments will continue to be a focus in the future.

Contacting the Library's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Northville District Library's office at 212 West Cady Street, Northville, Michigan 48167, or via the Library's website at www.northville.lib.mi.us.

Northville District Library

Governmental Funds Balance Sheet/Statement of Net Assets November 30, 2008

	Modified Accrual Basis					Full Accrual Basis
	General Fund - Operating Fund	Special Revenue Fund - Reserve Fund	Debt Service Fund	Total	Adjustments (Note 9)	Government-wide Statement of Net Assets
Assets						
Cash and cash equivalents (Note 2)	\$ 232,765	\$ 1,042,485	\$ 101,961	\$ 1,377,211	\$ -	\$ 1,377,211
Prepaid expenses	4,000	-	-	4,000	-	4,000
Due from other funds	-	175,194	11,339	186,533	(186,533)	-
Capital assets - Net of accumulated depreciation (Note 4)	-	-	-	-	4,711,576	4,711,576
Total assets	<u>\$ 236,765</u>	<u>\$ 1,217,679</u>	<u>\$ 113,300</u>	<u>\$ 1,567,744</u>	4,525,043	6,092,787
Liabilities						
Accounts payable	\$ 50,232	\$ -	\$ -	\$ 50,232	-	50,232
Accrued interest payable	-	-	-	-	18,000	18,000
Compensated absences	-	-	-	-	118,680	118,680
Due to other funds	186,533	-	-	186,533	(186,533)	-
Long-term debt (Note 5):						
Due within one year	-	-	-	-	325,000	325,000
Due in more than one year	-	-	-	-	2,375,000	2,375,000
Total liabilities	236,765	-	-	236,765	2,650,147	<u>2,886,912</u>
Net Assets						
Fund balances:						
Reserved for debt service	-	-	113,300	113,300	(113,300)	-
Designated for facilities and capital projects	-	422,003	-	422,003	(422,003)	-
Designated for technology projects	-	123,230	-	123,230	(123,230)	-
Designated for strategic planning	-	153,365	-	153,365	(153,365)	-
Designated for future unfunded expenses	-	519,081	-	519,081	(519,081)	-
Total fund balances	-	1,217,679	113,300	1,330,979	(1,330,979)	-
Total liabilities and net assets	<u>\$ 236,765</u>	<u>\$ 1,217,679</u>	<u>\$ 113,300</u>	<u>\$ 1,567,744</u>		
Invested in capital assets - Net of related debt					2,011,576	2,011,576
Restricted - Debt service					113,300	113,300
Unrestricted					<u>1,080,999</u>	<u>1,080,999</u>
Total net assets					\$ 3,205,875	\$ 3,205,875

Northville District Library

Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended November 30, 2008

	Modified Accrual Basis				Full Accrual Basis	
	General Fund - Operating Fund	Special Revenue Fund - Reserve Fund	Debt Service Fund	Total	Adjustments (Note 9)	Government- wide Statement of Activities
Revenues						
Property taxes	\$ 2,307,468	\$ -	\$ 474,710	\$ 2,782,178	\$ -	\$ 2,782,178
Penal fines	29,847	-	-	29,847	-	29,847
Rentals and fees - Library user services	9,859	-	-	9,859	-	9,859
Overdue fines	44,049	-	-	44,049	-	44,049
State aid	17,950	-	-	17,950	-	17,950
Donations	28,740	-	-	28,740	-	28,740
Interest earnings	22,977	23,268	4,710	50,955	-	50,955
Total revenues	2,460,890	23,268	479,420	2,963,578	-	2,963,578
Expenditures						
Wages and salaries	1,042,569	-	-	1,042,569	-	1,042,569
Fringe benefits and payroll taxes	339,908	-	-	339,908	17,414	357,322
Postage	5,931	-	-	5,931	-	5,931
Operating supplies	23,774	-	-	23,774	-	23,774
Telephone	3,943	-	-	3,943	-	3,943
Copier expense	5,635	-	-	5,635	-	5,635
Insurance	23,251	-	-	23,251	-	23,251
Utilities and janitorial	129,447	-	-	129,447	-	129,447
Repairs and maintenance	55,255	-	-	55,255	(34,881)	20,374
Education and training	11,873	-	-	11,873	-	11,873
Capital outlay:						
Books	254,741	-	-	254,741	(254,741)	-
Equipment	33,753	-	-	33,753	(33,753)	-
Other	27,191	-	-	27,191	(27,191)	-
Special programs	12,603	-	-	12,603	-	12,603
Legal	6,087	-	-	6,087	-	6,087
Audit fees	5,500	-	-	5,500	-	5,500
Contractual services	13,026	-	-	13,026	-	13,026
Leases of equipment	1,464	-	-	1,464	-	1,464
Advertising and public relations	15,334	-	-	15,334	-	15,334
Auto circulation system services	25,353	-	-	25,353	-	25,353
Technology	53,219	-	-	53,219	(39,150)	14,069
Other	15,839	-	-	15,839	134,873	150,712
MERS healthcare contribution	100,000	-	-	100,000	-	100,000
Depreciation	-	-	-	-	352,900	352,900
Debt service	-	-	417,325	417,325	(312,000)	105,325
Total expenditures	2,205,696	-	417,325	2,623,021	(196,529)	2,426,492
Excess of Revenues Over Expenditures	255,194	23,268	62,095	340,557	196,529	537,086
Other Financing Sources (Uses) - Transfers in (out) - General Fund	(255,194)	255,194	-	-	-	-
Net Change in Fund Balances	-	278,462	62,095	340,557	196,529	537,086
Fund Balances/Net Assets - December 1, 2007	-	939,217	51,205	990,422	1,678,367	2,668,789
Fund Balances/Net Assets - November 30, 2008	\$ -	\$ 1,217,679	\$ 113,300	\$ 1,330,979	\$ 1,874,896	\$ 3,205,875

Northville District Library

Notes to Financial Statements November 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of the Northville District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Northville District Library serves the City of Northville and Northville Township. The Library is governed by a seven-member board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the Library. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

In addition to presenting information for the General Fund, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Northville District Library

**Notes to Financial Statements
November 30, 2008**

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

The Library reports the following major governmental funds:

General Fund - Operating Fund - The Operating Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. Operating Fund activities are financed by revenue from general property taxes, state aid, and other sources.

Special Revenue Fund - Reserve Fund - The Reserve Fund is used to account for assets in excess of current operating needs.

Debt Service Fund - The Debt Service Fund is used to account for the annual payment of principal, interest, and expenses in connection with the building debt.

Fund balance has been reserved and net assets have been restricted for debt service in an amount equal to collections of debt millage in excess of bond payments to date.

Northville District Library

Notes to Financial Statements November 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due without penalty during the period from December 1 through February 28. Taxes are considered delinquent as of March 1, at which time they are added to the county tax rolls with penalty.

The delinquent real property taxes of the Library are purchased by Wayne and Oakland counties. The counties sell tax notes, the proceeds of which are used to pay the Library for these property taxes. Oakland County remitted its share of the purchased delinquent real property taxes in August 2007. Wayne County remitted its share of the purchased delinquent real property taxes in August 2007. Both Wayne County and Oakland County's shares of delinquent real property taxes have been recorded as revenue in the current year.

The 2007 taxable valuation of the Library district totaled \$2.5 billion, on which ad valorem taxes levied consisted of 0.9573 mills for the Library's operating purposes and 0.1980 mills for debt service. The ad valorem taxes levied raised \$2.3 million for operations and \$475,000 for debt service. These amounts are recognized in the respective Operating and Debt Service Funds financial statements as tax revenue.

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$500 capitalization threshold.

Northville District Library

Notes to Financial Statements November 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	50 years
Furniture and equipment	2-15 years
Collections	10 years

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Long-term Obligations - In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Northville District Library

Notes to Financial Statements November 30, 2008

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Library's investment policy permits investment in all investment vehicles allowable by state law.

The Library's investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Library will not be able to recover the value of its investments. At year end, the Library had \$31,540 of bank deposits which was fully covered by FDIC insurance. The Library's policy for custodial credit risk limits bank options to those approved by the board of trustees.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library's policy limits dealer options to those approved by the board of trustees. All dealers must be affiliated with a bank or shall be classified as reporting dealers in compliance with the uniform net capital rule. Dealers must also supply audited financial statements, state registration, and certification of compliance with the Library's investment policy. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 1,381,167	A-1	S&P

Northville District Library

Notes to Financial Statements November 30, 2008

Note 3 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance December 1, 2007	Additions	Disposals	Balance November 30, 2008
Governmental Activities				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,639,524	\$ -	\$ -	\$ 4,639,524
Furniture and equipment	707,651	107,784	(142,373)	673,062
Collections	1,748,920	281,932	(210,587)	1,820,265
Subtotal	7,096,095	389,716	(352,960)	7,132,851
Accumulated depreciation:				
Buildings and improvements	1,113,485	92,790	-	1,206,275
Furniture and equipment	394,402	97,217	(71,187)	420,432
Collections	778,575	162,893	(146,900)	794,568
Subtotal	2,286,462	352,900	(218,087)	2,421,275
Net capital assets being depreciated	<u>\$ 4,809,633</u>	<u>\$ 36,816</u>	<u>\$ (134,873)</u>	<u>\$ 4,711,576</u>

Note 4 - Long-term Debt

Outstanding Debt

Long-term debt activity of the Library's governmental activities was as follows:

	Balance December 1, 2007	Reductions	Balance November 30, 2008	Due Within One Year
1998 Refunding Bonds, general obligation bonds with interest ranging from 4.00 percent to 6.00 percent, maturing through April 1, 2015	<u>\$ 3,000,000</u>	<u>\$ 300,000</u>	<u>\$ 2,700,000</u>	<u>\$ 325,000</u>

Defeased Debt

During 1998, the Library defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the basic financial statements. At November 30, 2008, \$2,675,000 of bonds outstanding are considered defeased.

Northville District Library

Notes to Financial Statements November 30, 2008

Note 4 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements of governmental fund resources to service the general obligation bonds as of November 30, 2008 are as follows:

Years Ending November 30	Principal	Interest	Total
2009	\$ 325,000	\$ 101,500	\$ 426,500
2010	350,000	88,000	438,000
2011	370,000	73,600	443,600
2012	390,000	58,400	448,400
2013	405,000	42,500	447,500
2014-2017	860,000	34,800	894,800
Total	<u>\$ 2,700,000</u>	<u>\$ 398,800</u>	<u>\$ 3,098,800</u>

Note 5 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared and adopted by the Library board and subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at November 30, 2008 has not been calculated. There were budget amendments during the current year. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a revenue and expense line item basis, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations. A comparison of actual results of operations to the budget as adopted by the Library board is included in the budgetary comparison schedules - General Fund - Operating Fund and Special Revenue Fund - Reserve Fund in the required supplemental information section.

Northville District Library

Notes to Financial Statements November 30, 2008

Note 5 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - The Library has the following significant expenditure budget variances:

	<u>Budget</u>	<u>Actual</u>
General Fund:		
Friends donation expense	\$ -	\$ 27,191
Transfer for future unfunded expenses	-	175,194

Based on the uncertain nature of donations, the Library does not budget for donation revenue and, as a result, it does not budget for related expenditures. Due to favorable results in the General Fund, the Library board approved a transfer of the residual General Fund balance to the Special Revenue Fund to be used for future unfunded expenses.

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical benefit claims, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (state pool member) (the "Authority") for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool and the Authority's state pool programs operate as common risk-sharing management programs for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. For the state pool program, a portion of the excess insurance coverage is underwritten by the Authority itself.

Note 7 - Postemployment Benefits

The Library reimburses Medicare insurance premiums for retirees eligible for Medicare. Currently, there are four employees eligible. A participating retiree's contribution rate varies based on a vesting schedule from 20 percent to 80 percent. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to \$3,259. During the year, the Library made a prefunding contribution of postemployment health care to a trust held by the Municipal Employees' Retirement System of Michigan of \$100,000, bringing the cumulative prefunding contribution amount to approximately \$363,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the Library's government-wide financial statements to recognize the cost of providing retiree healthcare coverage, and create a liability if not actuarially funded, over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending November 30, 2010. The most recent estimate by management of the potential effect of this pronouncement on the Library, which was done in 2002, indicated that the postemployment benefit liability would be underfunded by approximately \$2,800,000 at that time.

Note 8 - Defined Benefit Pension Plan

Plan Description

The Library participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by resolution of the Library board.

Northville District Library

Notes to Financial Statements November 30, 2008

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended November 30, 2008, the Library's annual pension cost of approximately \$97,700 for the plan was equal to the Library's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return which includes an inflation component, (b) projected salary increases of 0 percent to 8.4 percent per year plus an inflation component, and (c) no postretirement benefit increases. The inflation factor mentioned in both (a) and (b) is 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year trend information for the years ended November 30 is as follows:

	2006	2007	2008
Annual pension cost (APC)	\$ 91,500	\$ 94,300	\$ 97,700
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Three-year trend information for the actuarial valuation as of December 31 is as follows:

	2005	2006	2007
Actuarial value of assets	\$ 1,057,875	\$ 1,196,493	\$ 1,350,557
Actuarial accrued liability (AAL)			
(entry age)	\$ 1,376,361	\$ 1,511,963	\$ 1,725,421
Unfunded AAL (UAAL)	\$ 318,486	\$ 315,470	\$ 374,864
Funded ratio	77%	79%	78%
Covered payroll	\$ 574,674	\$ 589,041	\$ 641,221
UAAL as a percentage of covered payroll	55%	54%	58%

Northville District Library

Notes to Financial Statements November 30, 2008

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 1,330,979
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources and are not reported in the funds	4,711,576
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Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,700,000)
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Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(18,000)
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Compensated absences are not included as a liability in the funds	<u>(118,680)</u>
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Total Net Assets - Full accrual basis	<u><u>\$ 3,205,875</u></u>
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Northville District Library

Notes to Financial Statements November 30, 2008

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Change in Fund Balances - Modified accrual basis	\$ 340,557
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balances; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	389,716
Depreciation	(352,900)

Losses resulting from disposals of capital assets are reported in the statement of activities, but not in the fund financial statements	(134,873)
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Increase in accrual for long-term compensated absences is reported as an expenditure in the statement of activities, but not in the fund statements	(17,414)
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Decrease in accrual for interest payments on long-term debt is reported in the statement of activities, but not in the fund financial statements	12,000
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>300,000</u>
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Change in Net Assets - Full accrual basis	<u>\$ 537,086</u>
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Northville District Library

Notes to Financial Statements November 30, 2008

Note 10 - Community Foundation Endowment Fund

The Library participates in an endowment program sponsored by the Community Foundation for Southeastern Michigan (an unrelated nonprofit foundation). The Library has established a permanent endowment fund held by the Community Foundation for Southeastern Michigan. The purpose of the endowment fund is to provide unrestricted operating support for the Library from the endowment earnings. Funds are donated by outside donors for the benefit of the Library and are held and managed by the Community Foundation for Southeastern Michigan. Earnings are available for distribution to the Library for operations at the discretion of the Community Foundation for Southeastern Michigan; therefore, interest and principal balances are not reflected in the financial statements of the Library.

Required Supplemental Information

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule General Fund - Operating Fund Year Ended November 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues				
Property taxes:				
Township support	\$ 1,984,500	\$ 1,984,500	\$ 2,014,170	\$ 29,670
City support	341,600	341,600	325,242	(16,358)
Tax refunds	(9,000)	(9,000)	(31,944)	(22,944)
State, local, and other:				
State aid	-	9,000	17,950	8,950
Penal fines	27,000	30,000	29,847	(153)
Interest earnings	30,000	30,000	22,977	(7,023)
Library fines	43,000	44,000	44,049	49
Rentals - Library book rentals		-	921	921
Printing services	8,500	8,500	8,938	438
Donations:				
Private donations	-	-	3,830	3,830
Friends donations	-	-	24,000	24,000
Gift books	-	-	910	910
Total revenues	2,425,600	2,438,600	2,460,890	22,290
Expenditures				
Personnel:				
Wages and salaries	1,004,000	1,064,000	1,042,569	21,431
Fringe benefits	391,000	395,000	339,908	55,092
MERS retiree health prefunding	100,000	100,000	100,000	-
Education and training	15,000	12,000	11,873	127
Workers' compensation	3,500	2,500	2,067	433
Payroll services	5,200	5,200	5,661	(461)
Membership fees	5,000	4,000	2,775	1,225

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule General Fund - Operating Fund (Continued) Year Ended November 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Expenditures (Continued)				
Building and utilities:				
Building maintenance	\$ 100,000	\$ 100,000	\$ 55,255	\$ 44,745
Liability and property insurance	26,000	26,000	23,251	2,749
Electric	67,000	67,000	62,489	4,511
Housekeeping	44,000	37,000	30,469	6,531
Gas	28,000	28,000	25,682	2,318
Contractual services	8,000	8,000	7,365	635
Telephone	5,700	5,700	3,943	1,757
Housekeeping supplies	6,000	6,000	6,051	(51)
Water	8,000	8,000	5,797	2,203
Acquisitions:				
Books and subscriptions	254,000	256,500	253,818	2,682
Operating supplies	28,000	26,000	23,774	2,226
Electronic products	35,000	35,000	33,753	1,247
Book rental purchases	2,500	-	-	-
Support services:				
Technology	44,300	44,300	39,103	5,197
Auto circular system service	35,000	32,000	25,353	6,647
Telecommunications	15,000	15,000	14,116	884
The Library Network/Baker Taylor fees	21,000	9,000	9,956	(956)
Special programs	14,000	14,000	12,603	1,397
Copier expense	10,400	8,000	5,635	2,365
Postage	9,000	9,000	5,931	3,069
Other:				
Legal services	6,000	6,000	6,087	(87)
Leased equipment	1,500	1,500	1,464	36
Public relations	35,000	25,400	15,190	10,210
Auditing services	8,000	8,000	5,500	2,500
Advertising	500	500	144	356
Donation expenses:				
Book donation expense	-	-	923	(923)
Friends donation expense	-	-	27,191	(27,191)
Total expenditures	2,335,600	2,358,600	2,205,696	152,904
Transfers out:				
Designated for building preservation and RFID	90,000	80,000	80,000	-
Designated for future unfunded expenses	-	-	175,194	(175,194)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule Special Revenue Fund - Reserve Fund Year Ended November 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues - Interest earnings	\$ -	\$ -	\$ 23,268	\$ 23,268
Residual Equity Transfer In	-	-	255,194	255,194
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,462</u>	<u>\$ 278,462</u>

Northville District Library

Report to the Library Board

November 30, 2008



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
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To the Library Board
Northville District Library

We have recently completed our audit of the basic financial statements of the Northville District Library (the "Library") for the year ended November 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, recommendations, and informational comments which impact the Library:

	<u>Page</u>
Results of the Audit	1-3
Other Comments and Recommendations	4-5

We are grateful for the opportunity to be of service to the Northville District Library. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

January 22, 2009



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Results of the Audit

January 22, 2009

To the Board of Trustees
Northville District Library

We have audited the financial statements of the Northville District Library for the year ended November 30, 2008 and have issued our report thereon dated January 22, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Northville District Library. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Northville District Library are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended November 30, 2008.

We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated January 22, 2009.

January 22, 2009

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Library's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Library, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Library, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Library's auditors.

This information is intended solely for the use of board of trustees and management of Northville District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in dark ink, appearing to read "Christopher Jones", written in a cursive style.

Christopher S. Jones

Other Recommendations

Northville District Library

Other Recommendations

In addition, we offer the following matters as a result of our audit for your consideration:

Strategic Planning

The Library has very prudently established reserve funds to enable continued investment in facilities and technologies without the need to borrow the necessary resources. The Library has also been able to prefund a portion of its retiree healthcare obligations which will soon be required to be measured. These are tremendous accomplishments, but please be aware that times are changing. The current economic state of our region and the nation is resulting in decreasing property values which will soon be seen in property tax revenues. While estimates of the impact are from one extreme to the other, the consensus is that there will be an impact on local government units for the next few years at least. Please be aware of this and budget conservatively. There will likely be a need to make difficult decisions about programs and services offered. The Library is positioned well to weather these times, but it will be a challenge. Please let me know if we can provide any input along the way based on our firm's extensive experience in the local government industry.

Capital Asset Software

During testing of capital assets, Plante & Moran, PLLC noticed the Library currently tracks capital assets manually. We believe there would be efficiencies and accuracy gains if the Library were to utilize a capital asset software program. Such a program could automatically calculate and track depreciation as well as provide detail lists to better identify asset disposals.

Bank Deposits

During our audit, we observed that bank deposits are only made two to three times per month. Although we understand the Library does not collect a significant amount of cash over the counter, a sizable amount can be accumulated within a one- or two-week period. We recommend that deposits are made on a weekly basis at a minimum.

We would like to thank you and your staff again this year for their preparedness, cooperation, and assistance that they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Very truly yours,

Plante & Moran, PLLC



Christopher S. Jones